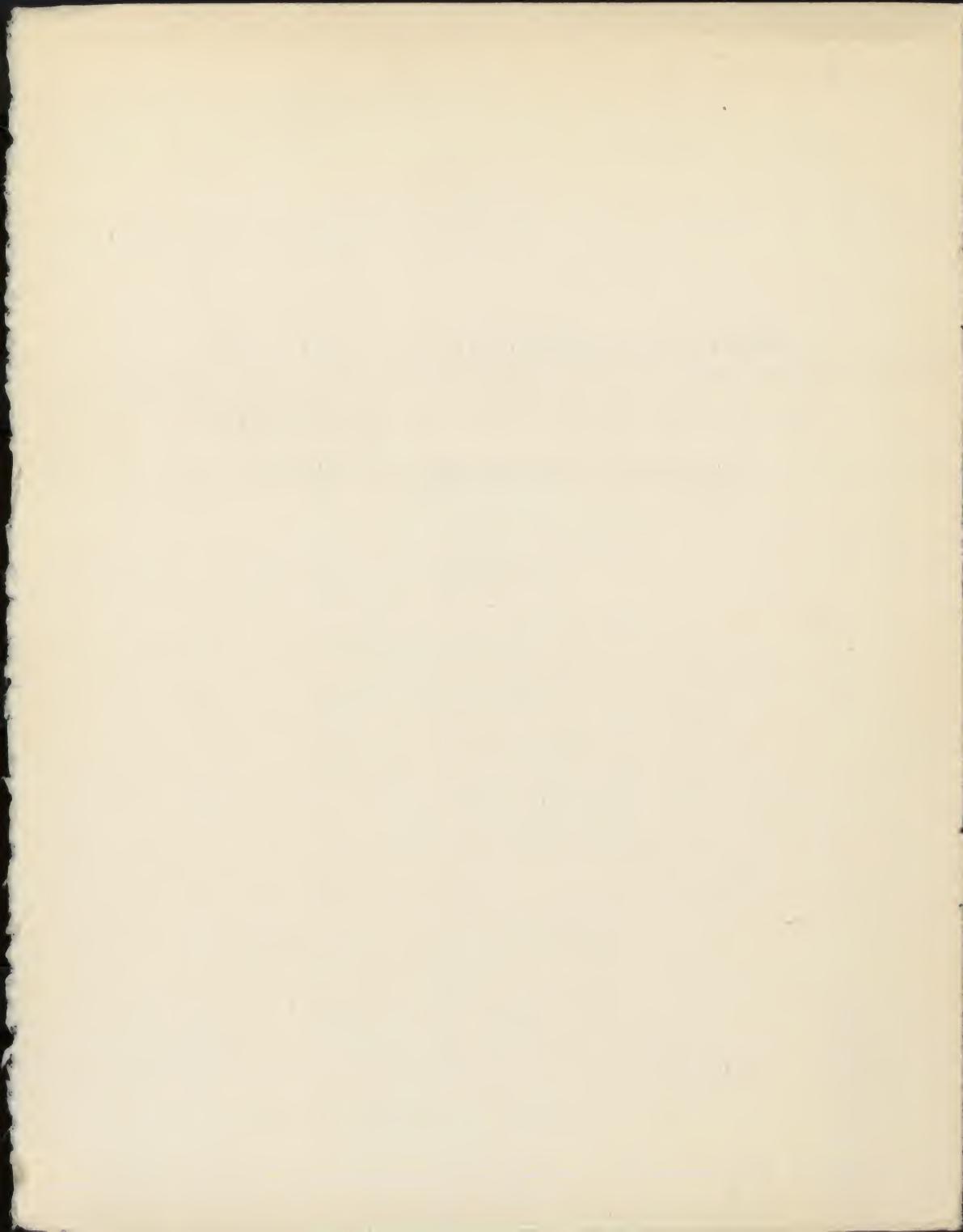


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MONTGOMERY WARD
Seventy-Third Annual Report
Twelve Months Ended
January 31
1945

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Montgomery Ward & Co.

INCORPORATED

(AN ILLINOIS CORPORATION)



Seventy-Third Annual Report
Twelve Months Ended
January 31, 1945

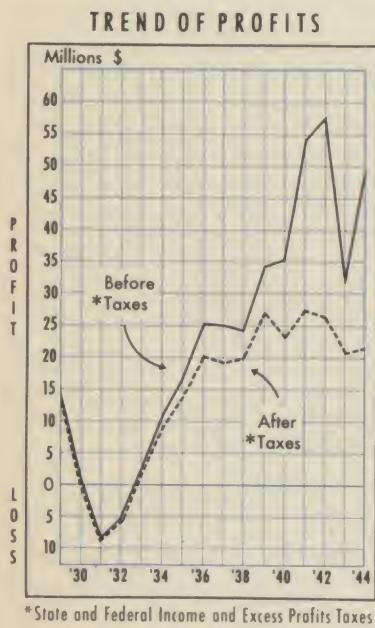


Chicago, March 21, 1945

*To the Shareholders of
Montgomery Ward & Co.:*

Net profits for the fiscal year ended January 31, 1945, were \$21,285,839, representing common stock earnings of \$3.81 per share, after deducting dividends paid on the Class

"A" stock. For the preceding year the corresponding profits were \$20,677,098, or \$3.69 per share.



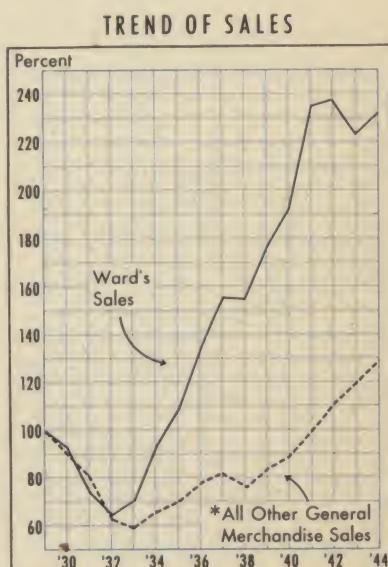
Net sales for the year of \$620,968,523 were 4.2% higher than the sales of the previous year. Earnings before taxes were \$49,065,839, or 7.9% of sales, an improvement of more than \$17,000,000 over last year's earnings of \$31,932,098, or 5.3% of sales. All divisions of the business operated profitably for

the year. The increased earnings reflect a continuation of satisfactory retail store performance and a substantial improvement in mail order operations, although it was necessary to return more than \$77,000,000 to mail order customers who ordered merchandise which could not be supplied.

Merchandise inventories of \$117,530,922 were \$7,047,057 or 5.7% under last year. Combined merchandise inventories and orders in the hands of suppliers were approximately 15% higher than a year ago.

Cash and U.S. Government securities, including tax notes purchased for payment of Federal taxes, totaled \$125,973,774, and exceeded total liabilities by \$55,857,303. Net working capital increased more than \$10,000,000 during the year to \$222,081,268 at the year end. The ratio of current assets to current liabilities was 6.6 to 1.

Cash dividends amounting to \$11,845,172 were paid



*From U.S. Department of Commerce
(Excluding Ward's Sales)

during the year, of which \$1,410,878 were paid to the Class "A" shareholders, and \$10,434,294, or \$2.00 per share to the holders of common stock. Earnings retained for the security and growth of the company amounted to \$9,440,667, and increased earned surplus to \$109,518,265 at the year end. The book value of common stock was \$45.70 per share.

Included herein are comparative balance sheets and income statistics showing the growth of the company over the past ten years.

The company has steadfastly opposed the efforts of the National War Labor Board to impose upon the employees the form of closed shop called "maintenance of membership." Every order issued by the War Labor Board against the company has sought to impose this requirement. The company has refused to comply with these orders because compulsory union membership violates the American principles of liberty and freedom.

The Court of Appeals of the District of Columbia held that orders of the War Labor Board are merely "advice" which no one has any legal duty to obey. The court held that anyone who refuses to comply with Board orders

is not defying a demand of the Government and, since the orders are merely advisory, no governmental official has the right to impose punishment on those who do not comply. The Supreme Court refused to alter this decision.

Nevertheless, the President of the United States on December 27, 1944 ordered the United States Army to seize and operate certain of the company's mail order houses, retail stores, and warehouses, and to enforce the orders of the War Labor Board.

The Army replaced the company's managers with Army officers. The Army appropriated to its own use the cash on hand. The Army sold the company's merchandise and retained the money collected. The Army appropriated the payments made by customers on accounts owed the company for merchandise previously sold. Despite these actions, the Army by January 31, had paid from its own funds \$2,306,474.36 more than it had appropriated.

On January 27, Judge Philip L. Sullivan of the United States District Court at Chicago held "that the possession by the President of the United States of the properties and facilities . . . of Montgomery Ward & Co. . . . is illegal and unlawful" and that the President's order under which the plants were seized "is null and void."

The Court said:

"The Constitutional guaranties that protect the sacred rights, liberties and property of American citizens, from the humblest to the most exalted, still remain inviolate. These rights may not be transgressed with impunity nor be disregarded because of expediency; neither may they be abridged or suspended, even for a single moment, except in the manner and under the circumstances specifically provided by law."

The Government has appealed this decision. In the meantime, despite the decision of the court, the Army continues in possession of the seized properties.

Respectfully submitted,

SEWELL AVERY,

Chairman of the Board

Montgomery Ward

Balance Sheet

ASSETS

Current Assets:

| | |
|--|--------------------------|
| Cash..... | \$ 16,991,272.09 |
| U. S. Government securities (short term).... | 78,518,501.58 |
| Receivables— | |
| Customers' time payment accounts.... | \$ 45,643,608.37 |
| Customers' charge and other accounts.. | 6,021,382.17 |
| Due from suppliers, claims receivable, etc. | <u>3,778,832.62</u> |
| | <u>\$ 55,443,823.16</u> |
| <i>Less</i> —Reserves for doubtful accounts and collection expense..... | <u>6,750,780.26</u> |
| | 48,693,042.90 |
| Merchandise inventories (priced at the lower of cost or market) | 117,530,921.72 |
| Total current assets..... | \$ 261,733,738.29 |
| Prepaid Catalog Costs and Expenses | 8,819,426.02 |
| Refundable Excess Profits Taxes | 4,505,000.00 |
| Fixed Assets (at cost, less depreciation reserves): | |
| Land..... | \$ 6,356,335.39 |
| Buildings..... | \$ 36,401,901.44 |
| Fixtures and equipment.. | <u>30,308,688.85</u> |
| | <u>\$ 66,710,590.29</u> |
| <i>Less</i> —Reserves for depreciation..... | <u>35,712,067.76</u> |
| | 30,998,522.53 |
| Leasehold improvements (less amortization).. | 4,398,557.04 |
| | 41,753,414.96 |
| | <u>\$ 316,811,579.27</u> |

Note: Certain company properties, representing amounts
seized by the United States Army. This seizure is due to

& Co., Incorporated

— January 31, 1945

LIABILITIES

Current Liabilities:

| | |
|--|-------------------------|
| Accounts payable..... | \$ 15,204,367.56 |
| Due customers..... | 12,395,284.72 |
| Net cash outlay by U. S. Army (see note)..... | 2,306,474.36 |
| Accrued expenses and miscellaneous taxes..... | 9,746,344.11 |
| Accrued Federal income taxes..... | \$ 30,464,000.00 |
| <i>Less</i> —U. S. Treasury savings notes..... | <u>30,464,000.00</u> |
| Total current liabilities..... | <u>\$ 39,652,470.75</u> |

Reserves:

| | |
|--|---------------------|
| Possible future inventory price decline..... | \$ 16,000,000.00 |
| Self-insurance and contingencies..... | <u>2,605,180.29</u> |

18,605,180.29

Capital Stock and Surplus:

Capital stock—

Authorized—

Class "A"—205,000 shares of no par value, \$7 per share cumulative dividends, non-callable and with preference in liquidation of \$100 per share

Common—10,000,000 shares of no par value

Issued (stated value)—

Class "A"—205,000 shares }..... \$ 149,288,340.08
Common—5,217,147 shares }

Less—Class "A" Treasury stock—

3,446 shares..... 252,676.50

\$ 149,035,663.58

109,518,264.65

258,553,928.23

Earned surplus.....

\$ 316,811,579.27

proximately 15% of total company assets, have been discussed in the accompanying letter to shareholders.

Montgomery Ward & Co., Incorporated

Comparative Income Account

| | <i>Year Ended January 31</i> | |
|---|------------------------------|--------------------------|
| | <i>1945</i> | <i>1944</i> |
| Net sales..... | <u>\$ 620,968,523.00</u> | <u>\$ 595,932,821.00</u> |
| Deduct— | | |
| Cost of sales, selling, and general expenses, and all taxes other than income taxes.... | \$ 568,377,244.86 | \$ 560,356,211.75 |
| Depreciation and amortization of fixed properties..... | <u>3,525,439.34</u> | <u>3,644,511.15</u> |
| | <u>\$ 571,902,684.20</u> | <u>\$ 564,000,722.90</u> |
| Net profit before taxes on income..... | <u>\$ 49,065,838.80</u> | <u>\$ 31,932,098.10</u> |
| Provision for income and excess profits taxes— | | |
| Federal and state income taxes..... | \$ 12,950,000.00 | \$ 11,895,000.00 |
| Excess profits taxes (less refundable portion).... | 14,830,000.00 | — |
| <i>Less</i> —Prior year's refundable excess profits taxes..... | — | 640,000.00 |
| | <u>\$ 27,780,000.00</u> | <u>\$ 11,255,000.00</u> |
| Net profit for the year..... | <u>\$ 21,285,838.80</u> | <u>\$ 20,677,098.10</u> |
| Provision for possible future inventory price decline..... | \$ — | \$ 1,000,000.00 |
| <i>Less</i> —Excess reserves for doubtful time payment receivables provided in prior periods..... | — | 1,000,000.00 |
| | <u>\$ —</u> | <u>\$ —</u> |
| Net profit to surplus..... | <u>\$ 21,285,838.80</u> | <u>\$ 20,677,098.10</u> |

Montgomery Ward & Co., Incorporated

Earned Surplus Account

| | |
|---|---|
| Balance January 31, 1944..... | \$ 100,077,597.85 |
| Net profit for the year ended January 31, 1945..... | <u>21,285,838.80</u> |
| Total..... | \$ 121,363,436.65 |
| Deduct— | |
| Dividends on Class "A" stock—\$7.00 per share .. | \$ 1,410,878.00 |
| Dividends on common stock—\$2.00 per share .. | <u>10,434,294.00</u> <u>11,845,172.00</u> |
| Balance January 31, 1945..... | <u>\$ 109,518,264.65</u> |

To the Board of Directors,

Montgomery Ward & Co., Incorporated:

We have examined the balance sheet of MONTGOMERY WARD & CO., INCORPORATED (an Illinois corporation) as of January 31, 1945, and the statements of income and surplus for the year then ended, have reviewed the system of internal control and the accounting procedures of the company and, without making a detailed audit of the transactions, have examined or tested accounting records of the company and other supporting evidence, by methods, at times, and to the extent we deemed appropriate. Our examination was made in accordance with generally accepted auditing standards applicable in the circumstances and included all procedures which we considered necessary. We made a similar examination for the preceding year.

In our opinion, the accompanying balance sheet and related statements of income and surplus present fairly the position of the company at January 31, 1945, and the results of its operations for the two years then ended, in conformity with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

Chicago, Illinois, March 12, 1945

ARTHUR ANDERSEN & Co.

Montgomery Ward

Comparison of

January 31

| | <i>1945</i> | <i>1944</i> | <i>1943</i> | <i>1942</i> |
|--|-------------|-------------|-------------|-------------|
|--|-------------|-------------|-------------|-------------|

ASSETS

| | | | | |
|--------------------------------------|-----------------------|-----------------------|-----------------------|-----------------------|
| Cash and U. S. Securities | \$ 95,509,773 | \$ 77,203,467 | \$ 44,104,978 | \$ 15,955,864 |
| Receivables, less Reserves | 48,693,043 | 42,054,432 | 53,539,393 | 91,073,514 |
| Merchandise Inventories | 117,530,922 | 124,577,979 | 139,733,375 | 123,102,953 |
| Total Current Assets | \$ 261,733,738 | \$ 243,835,878 | \$ 237,377,746 | \$ 230,132,331 |
| Prepaid Expenses | 8,819,426 | 8,789,158 | 9,345,872 | 10,508,082 |
| Investments, etc. | 4,505,000 | 2,685,000 | 2,045,000 | 678,173 |
| Fixed Assets | 41,753,415 | 44,278,550 | 46,360,093 | 48,981,230 |
| | <u>\$ 316,811,579</u> | <u>\$ 299,588,586</u> | <u>\$ 295,128,711</u> | <u>\$ 290,299,816</u> |

LIABILITIES

| | | | | |
|-------------------------------|------------------------------|------------------------------|------------------------------|------------------------------|
| Current Liabilities | \$ 39,652,470 | \$ 31,777,287 | \$ 36,986,928 | \$ 51,239,949 |
| Reserves | 18,605,180 | 18,698,037 | 17,860,447 | 7,370,943 |
| Capital Stock | 149,035,664 | 149,035,664 | 149,035,664 | 149,035,664 |
| Earned Surplus | 109,518,265 | 100,077,598 | 91,245,672 | 82,653,260 |
| | <u>\$ 316,811,579</u> | <u>\$ 299,588,586</u> | <u>\$ 295,128,711</u> | <u>\$ 290,299,816</u> |
| Net Working Capital | <u><u>\$ 222,081,268</u></u> | <u><u>\$ 212,058,591</u></u> | <u><u>\$ 200,390,818</u></u> | <u><u>\$ 178,892,382</u></u> |

& Co., Incorporated

Balance Sheets

| January 31 | | | | | |
|-----------------------|-----------------------|-----------------------|-----------------------|-----------------------|-----------------------|
| 1941 | 1940 | 1939 | 1938 | 1937 | 1936 |
| \$ 16,413,449 | \$ 14,396,412 | \$ 24,392,658 | \$ 18,515,251 | \$ 17,130,892 | \$ 15,220,171 |
| 94,715,917 | 78,880,212 | 62,593,191 | 57,353,769 | 44,355,143 | 33,659,388 |
| <u>101,710,763</u> | <u>96,323,612</u> | <u>81,494,245</u> | <u>77,361,847</u> | <u>87,174,188</u> | <u>65,435,102</u> |
| \$ 212,840,129 | \$ 189,600,236 | \$ 168,480,094 | \$ 153,230,867 | \$ 148,660,223 | \$ 114,314,661 |
| 8,357,296 | 7,153,715 | 6,655,355 | 6,412,777 | 5,912,666 | 4,751,844 |
| 856,718 | 5,234,916 | 6,012,451 | 6,648,497 | 7,257,670 | 8,109,448 |
| <u>49,623,060</u> | <u>49,848,029</u> | <u>46,683,090</u> | <u>46,896,602</u> | <u>44,851,570</u> | <u>41,508,483</u> |
| <u>\$ 271,677,203</u> | <u>\$ 251,836,896</u> | <u>\$ 227,830,990</u> | <u>\$ 213,188,743</u> | <u>\$ 206,682,129</u> | <u>\$ 168,684,436</u> |
| | | | | | |
| \$ 49,362,756 | \$ 40,704,949 | \$ 31,901,198 | \$ 27,675,902 | \$ 29,885,833 | \$ 17,631,525 |
| 1,132,067 | 1,132,412 | 1,095,730 | 1,087,137 | 1,004,358 | 971,032 |
| 149,035,664 | 149,035,664 | 149,035,664 | 149,035,664 | 147,779,264 | 122,949,944 |
| <u>72,146,716</u> | <u>60,963,871</u> | <u>45,798,398</u> | <u>35,390,040</u> | <u>28,012,674</u> | <u>27,131,935</u> |
| <u>\$ 271,677,203</u> | <u>\$ 251,836,896</u> | <u>\$ 227,830,990</u> | <u>\$ 213,188,743</u> | <u>\$ 206,682,129</u> | <u>\$ 168,684,436</u> |
| | | | | | |
| \$ 163,477,373 | \$ 148,895,287 | \$ 136,578,896 | \$ 125,554,965 | \$ 118,774,390 | \$ 96,683,136 |

Montgomery Ward

Comparison of Sales,

| FISCAL YEAR ENDED JANUARY 31 | NET SALES | PROFIT BEFORE INCOME TAXES | INCOME TAXES | NET PROFIT |
|------------------------------------|------------------|----------------------------------|-----------------|----------------|
| 1945 | \$ 620,968,523 | \$ 49,065,839 | \$ 27,780,000 | \$ 21,285,839 |
| 1944 | 595,932,821 | 31,932,098 | 11,255,000 | 20,677,098 |
| 1943 | 635,006,979 | 57,597,584 | 31,160,000 | 26,437,584 |
| 1942 | 632,708,657 | 54,011,716 | 26,660,000 | 27,351,716 |
| 1941 | 515,910,915 | 35,083,017 | 12,055,000 | 23,028,017 |
| 1940 | 474,882,032 | 34,310,645 | 7,300,000 | 27,010,645 |
| 1939 | 413,961,241 | 24,044,956 | 4,400,000 | 19,644,956 |
| 1938 | 414,090,544 | 25,110,029 | 5,900,000 | 19,210,029 |
| 1937 | 361,297,059 | 25,198,914 | 5,000,000 | 20,198,914 |
| 1936 | 293,042,357 | 16,837,310 | 3,310,000 | 13,527,310 |
| Totals | \$ 4,957,801,128 | \$ 353,192,108 | \$ 134,820,000 | \$ 218,372,108 |

& Co., Incorporated

Earnings, and Surplus

| DIVIDENDS | INVENTORY PRICE DECLINE RESERVE (End of Year) | EARNED SURPLUS (End of Year) | BOOK VALUE PER COMMON SHARE |
|----------------|---|------------------------------------|-----------------------------------|
| \$ 11,845,172 | \$ 16,000,000 | \$ 109,518,265 | \$ 45.70 |
| 11,845,172 | 16,000,000 | 100,077,598 | 43.89 |
| 11,845,172 | 15,000,000 | 91,245,672 | 42.19 |
| 11,845,172 | 5,000,000 | 82,653,260 | 40.54 |
| 11,845,172 | — | 72,146,716 | 38.53 |
| 11,845,172 | — | 60,963,871 | 36.38 |
| 9,236,598 | — | 45,798,398 | 33.48 |
| 11,832,663 | — | 35,390,040 | 31.48 |
| 19,318,175 | — | 28,012,674 | 29.98 |
| 2,469,036 | — | 27,131,935 | 28.46 |
| <hr/> | <hr/> | <hr/> | <hr/> |
| \$ 113,927,504 | | | |
| <hr/> | <hr/> | <hr/> | <hr/> |

Montgomery Ward & Co., Incorporated

DIRECTORS

SEWELL L. AVERY, *Chairman*

| | |
|-------------------------|-------------------|
| PHILIP R. CLARKE | HAROLD L. PEARSON |
| DAVID A. CRAWFORD | BERT R. PRALL |
| PERCY B. ECKHART | CLEMENT D. RYAN |
| CHARLES F. GLORE | *SILAS H. STRAWN |
| WILLIAM L. KEADY | JAMES W. THORNE |
| DONALD R. McLENNAN, JR. | GEORGE WHITNEY |

*Chairman, Executive Committee

OFFICERS

| | |
|-------------------------|---------------------------------------|
| SEWELL L. AVERY..... | <i>Chairman, Board of Directors</i> |
| CLEMENT D. RYAN..... | <i>President</i> |
| ROWLAND S. STEVENS..... | <i>Vice-President</i> |
| BERT R. PRALL..... | <i>Vice-President</i> |
| HAROLD L. PEARSON..... | <i>Vice-President & Treasurer</i> |
| HARRY T. EATON..... | <i>Vice-President</i> |
| PHILIP W. HARRIS..... | <i>Vice-President</i> |
| EARL G. WARD..... | <i>General Comptroller</i> |
| LESLIE F. CREWS..... | <i>Retail Comptroller</i> |
| CARL D. BERRY..... | <i>Mail Order Comptroller</i> |
| STUART S. BALL..... | <i>Secretary</i> |
| ARTHUR R. CAHILL..... | <i>Assistant Treasurer</i> |
| ROBERT S. SMITH..... | <i>Assistant Treasurer</i> |
| JOHN A. BARR..... | <i>Assistant Secretary</i> |
| RALPH G. CRANDALL..... | <i>Assistant Secretary</i> |

Transfer Agents

THE NORTHERN TRUST CO., CHICAGO, ILL.

J. P. MORGAN & CO., INCORPORATED, NEW YORK, N. Y.

Registrars

THE FIRST NATIONAL BANK OF CHICAGO, CHICAGO, ILL.
BANKERS TRUST COMPANY, NEW YORK, N. Y.



